

THE BUSINESS SITUATION

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THE "FINAL" estimate of growth in real gross domestic product (GDP) for the second quarter of 1994 is 4.1 percent, 0.3 percentage point higher than the "preliminary" estimate reported in the August SURVEY OF CURRENT BUSINESS (table 1).¹ The general picture of economic activ-

ity was little changed from that reported in August: A jump in inventory investment accounted for more than half of the second-quarter increase in real GDP; fixed investment and personal consumption expenditures (PCE) also increased, but net exports and government purchases declined.

By component, the largest revision was to inventory investment, up \$2.9 billion; this revision primarily reflected the incorporation of newly available information from the U.S. Department of Agriculture on cattle held in farm inventories. Revisions to the other components of real GDP were small; net exports of goods and services and government purchases were revised up, and PCE and fixed investment were revised down.

The final estimate of real gross domestic purchases shows a 4.6-percent increase, 0.2 percentage point higher than the preliminary estimate.

The final estimates of the fixed-weighted price indexes for gross domestic purchases and for GDP show increases of 3.2 percent and 2.9 percent, respectively, little changed from the preliminary estimates.

The increase in real disposable personal income (DPI) was revised up 0.8 percentage point to 3.5

Table 1.—Revisions in Real Gross Domestic Product and Prices, Second Quarter 1994

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of 1987 dollars
Gross domestic product	3.8	4.1	0.3	3.9
Less: Exports of goods and services	15.8	16.6	.8	1.2
Goods	17.5	18.6	1.1	1.1
Services	10.7	10.7	0	0
Plus: Imports of goods and services	18.9	18.9	0	0
Goods	22.6	23.3	.7	.9
Services	-1.5	-4.0	-2.5	-7
Equals: Gross domestic purchases	4.4	4.6	.2	2.7
Personal consumption expenditures	1.4	1.3	-.1	-.8
Durables	1.2	.4	-.8	-1.1
Nondurables	2.1	2.2	.1	.4
Services	1.0	1.1	.1	.1
Fixed investment	8.7	8.6	-.1	-.2
Nonresidential	9.2	9.2	0	0
Structures	19.6	20.6	1.0	.3
Producers' durable equipment	6.5	6.1	-.4	-.4
Residential	7.3	7.0	-.3	-.2
Change in business inventories				2.9
Nonfarm				-1
Farm				2.9
Government purchases	-1.6	-1.2	.4	.8
Federal	-8.8	-7.9	.9	.8
National defense	-6.2	-4.1	2.1	1.2
Nondense	-14.0	-15.0	-1.0	-.3
State and local	2.9	2.9	0	0
Gross domestic purchases price index (fixed weights) ¹	3.3	3.2	-.1	
GDP price index (fixed weights) ¹	2.9	2.9	0	

1. Based on 1987 weights.

NOTE.—Final estimates for the second quarter of 1994 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

Personal consumption expenditures: Revised retail sales for June and household share of motor vehicle registrations for June.

Nonresidential fixed investment: Revised construction put in place for May and June, revised manufacturers' shipments of equipment for June, revised shipments of complete civilian aircraft for June, and business share of motor vehicle registrations for June.

Residential investment: Revised construction put in place for May and June.

Change in business inventories: Revised manufacturing and trade inventories for June and revised motor vehicles inventories for June.

Net exports of goods and services: Revised merchandise exports and imports for June, revised exports and imports of services for the quarter, and revised territorial adjustments for the quarter.

Government purchases: Revised State and local government construction put in place for May and June.

Net interest: Financial assets held by households for the quarter and revised net interest from the rest of the world for the quarter.

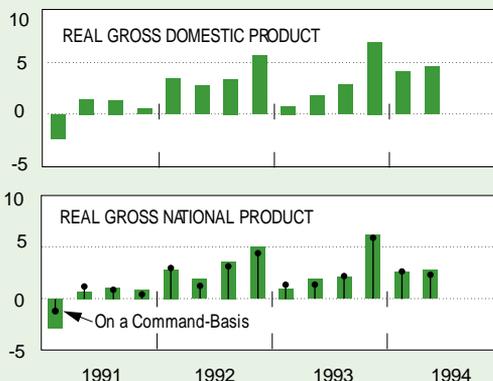
Corporate profits: Revised domestic book profits and profits from the rest of the world for the quarter.

GDP prices: Revised housing prices for the quarter and revised export and import prices for the quarter.

CHART 1

Selected Product Measures: Change From Preceding Quarter

Percent



Note.—Percent change at annual rate from preceding quarter, based on seasonally adjusted estimates.

U.S. Department of Commerce, Bureau of Economic Analysis

percent, about the same increase as in the first quarter. Current-dollar DPI was revised up \$8.9 billion, largely reflecting upward revisions to personal interest income (in turn reflecting newly available flow-of-funds data on household assets from the Federal Reserve Board) and to farm income (reflecting the aforementioned revision to farm inventories). The personal saving rate was revised up 0.2 percentage point to 4.1 percent.

Gross national product (GNP).—Real GNP increased 3.7 percent in the second quarter, somewhat less than the increase in real GDP (chart 1 and table 2).² Payments of factor income to the rest of the world increased more than receipts of factor income, but both increased considerably more in the second quarter than in the past several quarters. Interest income accounted for nearly all of the second-quarter increase in both receipts and payments.

Real GNP on a command basis increased less than real GNP—3.5 percent, compared with 3.7 percent—reflecting a slight deterioration in the terms of trade.³ In the first quarter, command-

basis GNP increased more than GNP—4.0 percent, compared with 3.4 percent.

Alternative measures

For the “final” estimate for the second quarter of 1994, BEA’s chain-type annual-weighted alternative measure of real GDP increased 4.2 percent, 0.1 percentage point more than the featured fixed-1987-weighted measure; the benchmark-years-weighted alternative measure increased 4.1 percent, the same as the featured measure. In the first quarter, both alternative measures had increased 3.2 percent, 0.1 percentage point less than the featured measure.

In the second quarter, as well as in the first, the small difference between the GDP growth rates of the chain-type and the featured measure reflected offsetting differences among the growth rates of the major components. In the second quarter, the larger increase in the chain-type measure reflected positive contributions from PCE for services, change in business inventories, and imports (which is subtracted in deriving GDP); negative contributions came from PCE for durable goods and from producers’ durable equipment.

For prices of gross domestic purchases, both alternative measures increased 3.1 percent in the second quarter, 0.1 percentage point less than the featured 1987-weighted measure. In the first quarter, the chain-type measure increased 2.5 percent, the same as the featured measure; the benchmark-years measure increased 2.6 percent. For GDP prices, both alternatives increased 2.7 percent in the second quarter and 3.2 percent in the first; the featured measure increased 2.9 percent in the second quarter and 3.1 percent in the first.

Compared with the first two quarters of 1994, the differences between the featured and the alternative measures of real GDP for the quarters of 1993 were considerably larger. The average increase in the featured measure of real GDP for these quarters was 0.9 percentage point larger than the average increases in the alternative measures. The largest difference was in the fourth quarter, when the featured measure increased 6.3 percent, 1.2 percentage points more than the alternative measures.⁴

by the ratio of the implicit price deflator for exports of goods and services and receipts of factor income to the corresponding implicit price deflator for imports, with the decimal point shifted two places to the right.

4. Estimates of the benchmark-years-weighted measures from the third quarter of 1992 forward are now calculated using 1992 and 1993 weights. Estimates of the chain-type annual-weighted measures from the third quarter of 1992 through the second quarter of 1993 are now calculated using 1992 and 1993 weights, and estimates from the third quarter of 1993 forward are now calculated using 1993 weights. (The schedule used to update the weights for the alternative measures was published in “Alternative Measures of Change in

2. GNP equals GDP plus receipts of factor income from the rest of the world less payments of factor income to the rest of the world.

3. In estimating real GNP, the current-dollar value of exports of goods and services is deflated by export prices, the current-dollar value of imports of goods and services is deflated by import prices, and the current-dollar values of receipts and payments of factor income are deflated by the implicit price deflator for net domestic product. In estimating command-basis GNP—a measure of U.S. production in terms of its purchasing power—the current-dollar value of total exports of goods and services and receipts of factor income is deflated by the implicit price deflator for imports of goods and services and payments of factor income. The terms of trade is measured

Table 2.—Relation of Gross Domestic Product, Gross National Product, and Command-Basis Gross National Product in Constant Dollars

[Seasonally adjusted at annual rates]

	Billions of 1987 dollars			Percent change from preceding quarter	
	Level	Change from preceding quarter			
	1994:II	1994:I	1994:II	1994:I	1994:II
Gross domestic product	5,314.1	43.1	53.0	3.3	4.1
Plus: Receipts of factor income from the rest of the world	127.1	2.4	12.3	8.8	50.3
Less: Payments of factor income to the rest of the world	130.7	1.5	17.5	5.5	77.7
Equals: Gross national product	5,310.5	44.0	47.8	3.4	3.7
Less: Exports of goods and services and receipts of factor income from the rest of the world	771.0	-3.1	36.5	-1.7	21.4
Plus: Command-basis exports of goods and services and receipts of factor income	790.6	4.0	34.4	2.1	19.5
Equals: Command-basis gross national product	5,330.1	51.2	45.6	4.0	3.5
Addendum:					
Terms of trade ¹	102.5	1.0	-5	4.0	-1.9

1. Ratio of the implicit price deflator for total exports of goods and services and receipts of factor income to the corresponding implicit price deflator for total imports, with the decimal point shifted two places to the right.

NOTE.—Levels of these series are found in NIPA tables 1.10 and 1.11.

The featured measure of real GDP is a fixed-weighted-measure in which quantities in all periods are weighted with 1987 prices. The faster growth of the featured measure of real GDP in 1993 reflects the greater weight in that measure of components that have had above-average increases in output and below-average increases in prices since 1987. (Such components have less weight in the alternative measures because the alternatives are based on more recent weights.) Computers and peripheral equipment, which is the most important of these components, had considerably larger-than-average increases in output during 1993.

Corporate Profits

Profits from current production—profits before tax with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj)—increased \$38.2 billion in the second quarter after decreasing \$25.7 billion in the first (table 3). The rebound largely reflected the effect of the Northridge, California, earthquake, which had reduced first-quarter profits by about \$30 billion.

Domestic operations of both financial and nonfinancial corporations contributed to the second-quarter increase; profits from the rest of the world changed little. For domestic operations of nonfinancial corporations, the increase reflected both an increase in real gross product and an increase in unit profits. The increase in unit profits, in turn, resulted from an increase in unit price and no change in overall unit cost.

Cash flow from current production, a profits-related measure of internally generated funds available to corporations for investment, increased \$8.3 billion after increasing \$1.0 billion. Despite the step-up, the ratio of cash flow to nonresidential fixed investment—a measure of the share of current levels of investment that could be financed by internally generated funds—decreased to 83.2 percent from 84.1 percent. Since peaking at 91.9 percent in the first quarter of 1992, the ratio has fluctuated between 83 percent and 88 percent; in contrast, in the 1980's, the ratio averaged 72.1 percent.

Industry profits.—Industry profits are measured by profits before tax with IVA because estimates of the CCAdj by industry do not exist. For financial corporations, industry profits increased \$16.8

billion after decreasing \$25.0 billion; the rebound reflected a sharp upturn in the profits of property and casualty insurance carriers. For nonfinancial corporations, profits increased \$21.3 billion after increasing \$1.7 billion; the step-up reflected upturns in trade and in the transportation and public utilities group that were partly offset by a downturn in manufacturing. In trade, profits improved at both the wholesale and retail levels. In manufacturing, the downturn mainly reflected motor vehicles and food.

Profits from the rest of the world measures receipts of profits from foreign affiliates of U.S. corporations less payments of profits by U.S. affiliates of foreign corporations. Receipts increased \$1.5 billion, and payments increased \$1.8 billion. In receipts, increased profits in manufacturing and "other" affiliates more than offset decreased profits in petroleum. In payments, increased profits in "other" affiliates, especially affiliates in wholesale trade, more than offset decreased profits in petroleum and manufacturing. 

Table 3.—Corporate Profits

[Seasonally adjusted at annual rates]

	Level		Change from preceding quarter
	1994:II		
	1994:I	1994:II	
Billions of dollars			
Profits from current production	546.4	-25.7	38.2
Domestic	485.7	-25.1	38.6
Financial	90.9	-25.7	16.0
Nonfinancial	394.7	.6	22.5
Rest of the world	60.7	-.6	-.4
IVA	-14.1	-5.8	-1.8
CCAdj	37.4	-1.8	.4
Profits before tax	523.1	-18.2	39.6
Profits tax liability	201.7	-7.4	17.6
Profits after tax	321.4	-10.8	22.0
Cash flow from current production	568.2	1.0	8.3
Profits by industry:			
Profits before tax with IVA	509.0	-23.9	37.8
Domestic	448.2	-23.3	38.1
Financial	106.4	-25.0	16.8
Nonfinancial	341.8	1.7	21.3
Manufacturing	143.0	10.9	-2.1
Trade	72.0	-4.7	13.0
Transportation and public utilities	73.2	-6.3	9.8
Other	53.6	1.7	.6
Rest of the world	60.7	-.6	-.4
Receipts (inflows)	79.1	2.9	1.5
Payments (outflows)	18.4	3.6	1.8
Dollars			
Unit price, costs, and profits of domestic nonfinancial corporations:			
Unit price	1.170	0.006	0.005
Unit labor cost766	.003	.003
Unit nonlabor cost277	.005	-.003
Unit profits from current production127	-.001	.005

NOTE.—Levels of these and other profits series are found in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

Real Output and Prices, Quarterly Estimates for 1959–92," in the March 1993 SURVEY.) Because the current estimates of these measures are calculated using 1992 or 1993 weights, BEA has decided not to publish fixed-1992-weighted measures as an alternative, as it had reported in 1992 that it planned to do.